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FEB 28 2003

**UTILITIES - NEW APPLICATION**

- ☐ New CC&N
- ☐ Rates
- ☐ Interim Rates
- ☐ Cancellation of CC&N
- ☐ Deletion of CC&N
- ☐ Extension of CC&N
- ☐ Tariff (NEW)
- ☐ Request for Arbitration
- ☐ Full or Partially Arbitrated
- ☐ Interconnection Agreement
- ☐ Voluntary Interconnection Agreement
- ☐ Miscellaneous - Specify: \_\_\_\_\_

- ☐ Main Extension
- ☐ Contract/Agreements
- ☐ Formal Complaint
- ☐ Waiver/Rule Variance
- ☐ Line Siting Committee Case
- ☐ Small Water Company - Surcharge
- ☐ Sale of Assets & Transfer of Ownership
- ☐ Sale of Assets & Cancellation of CC&N
- ☐ Fuel Adjuster/PGA
- ☐ Merger
- ☐ Financing

DOCKETED BY

*CH*

**UTILITIES - REVISIONS/AMENDMENTS TO PENDING OR APPROVED MATTERS**

Application: \_\_\_\_\_

Tariff: (Promotional or Compliance)  
(Circle One)

Company \_\_\_\_\_

Decision No. \_\_\_\_\_

Docket Number \_\_\_\_\_

Docket No: \_\_\_\_\_

**SECURITIES or MISCELLANEOUS FILINGS**

- ☐ Affidavit (Publication, Public Notice)
- ☐ Comments
- ☐ Exception
- ☐ Exhibit(s)
- ☐ Notice of Appearance/Intent
- ☐ Notice of Errata
- ☐ Opposition
- ☐ Petition

- ☐ Request/Motion for Extension of Time
- ☐ Request/Motion for a Hearing
- ☐ Request/Motion for an Intervention
- ☐ Miscellaneous Request/Motion
- ☐ Request/Motion for a Re-hearing
- ☐ Request/Motion to Continue Hearing
- ☐ Request/Motion to Strike
- ☐ Response
- ☐ Testimony
- ☐ Waiver
- ☐ Witness List
- ☐ Intervention

OTHER: \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Date \_\_\_\_\_

Print the name of the person whose signature appears on the  
filing (i.e. Contact Person, Respondent, Attorney, Applicant, etc.)



ORIGINAL

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Duke Energy Arlington Valley, LLC  
P.O. Box 26  
Arlington, Arizona 85322  
623/327-1314 OFFICE  
623/327-1315 FAX

2003 FEB 28 P 3: 19

AZ CORP COMMISSION  
DOCUMENT CONTROL

Arizona Corporation Commission  
DOCKETED

February 27, 2003

FFR 2 8 2003

Pat Williams, Manager  
Compliance and Enforcement  
Utilities Division  
Arizona Corporation Commission  
1200 W. Washington Street  
Phoenix, Arizona 85007

DOCKETED BY	<i>CAH</i>
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Re: ACC Amended Decision No: 62995 – Duke Energy Arlington Valley, LLC. (Duke”)

*L- 00000 P- 99- 0098*

Dear Mr. Williams:

This letter is the self-certification letter that Duke is voluntarily providing in accordance with your letter dated February 20, 2002.

Duke’s compliance with respect to the 14 conditions contained in its Certificate of Environmental Compatibility (A.C.C. Decision No: 62995) is as follows:

1. Duke is in compliance with all existing applicable air and water pollution control standards and regulations and with all existing applicable ordinances, master plans and regulations of the State of Arizona, the County of Maricopa, the United States and any other governmental entity having jurisdiction.

2. Duke has constructed the project within the five year term of the CEC. The facility was online and in commercial operation in June 2002.

3. As noted at the CEC hearing, Duke has satisfied this condition because its switchyard is the Hassayampa Switchyard.

4. As contemplated in the CEC Order, condition #4 is satisfied because Duke has met its construction and operational deadlines.

5. Applicant submitted its interconnection agreement to the ACC on May 2, 2002.

Mr. Pat Williams  
February 19, 2003  
Page two

6. Duke Energy North America, an affiliate of Duke, is a member of the WECC (f/k/a WSCC). Duke and SRP have executed a WECC Reliability Management System Generating Agreement. (A copy is enclosed).

7. Duke, or a subsidiary of Duke, acting as its agent has joined the Southwest Reserve Sharing Group. Attached is a model copy of the Southwest Reserve Sharing Group Participation Agreement. Once the fully executed copy is received, it will be submitted to the ACC.

8. N/A

9. Duke's evaporation pond is engineered and is being operated such that any salt residue will not cause damage to crops grown in adjacent fields.

10. Duke operates the plant such that it does not exceed HUD or EPA residential noise guidelines and OSHA worker safety noise standards.

11. Duke's plant uses a zero discharge system for its cooling water.

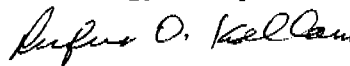
12. Duke's plant uses low profile structures, moderate stacks, neutral colors, compatible landscaping and low intensity directed lighting for the plant as well as non-reflective conductors and towers.

13. Duke has implemented a Land Management Plan that was filed with the Commission in April 2000. Duke also has filed the required annual report with the Arizona Corporation Commission on June 14, 2001 and June 18, 2002.

14. The plant meets all the requirements for the groundwater set forth in the Third Management Plan for the Phoenix Active Management Area.

Very truly yours,

Duke Energy Arlington Valley, LLC



Rufus D. Kellam

RDK/sbh  
Enclosures

**WECC RELIABILITY MANAGEMENT SYSTEM AGREEMENT**  
**Appendix B**  
**Model Stand-Alone Generator Agreement**

**RELIABILITY MANAGEMENT SYSTEM AGREEMENT**

**by and between**

**SALT RIVER PROJECT**  
**AGRICULTURAL IMPROVEMENT AND POWER DISTRICT**

**and**

**DUKE ENERGY ARLINGTON VALLEY, LLC**

**JUNE 19, 2002**

**THIS RELIABILITY MANAGEMENT SYSTEM AGREEMENT**

(the "Agreement"), is entered into this 7 day of June, 2002, by and between Salt River Project Agricultural Improvement and Power District (the "Transmission Operator") and Duke Energy Arlington Valley, LLC (the "Generator").

**WHEREAS**, there is a need to maintain the reliability of the interconnected electric systems encompassed by the WECC in a restructured and competitive electric utility industry;

**WHEREAS**, with the transition of the electric industry to a more competitive structure, it is desirable to have a uniform set of electric system operating rules within the Western Interconnection, applicable in a fair, comparable and non-discriminatory manner, with which all market participants comply; and

**WHEREAS**, the members of the WECC, including the Transmission Operator, have determined that a contractual Reliability Management System provides a reasonable, currently available means of maintaining such reliability.

**NOW, THEREFORE**, in consideration of the mutual agreements contained herein, and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the Transmission Operator and the Generator agree as follows:

**1. PURPOSE OF AGREEMENT**

The purpose of this Agreement is to maintain the reliable operation of the Western Interconnection through the Generator's commitment to comply with certain reliability standards.

**2. DEFINITIONS**

In addition to terms defined in the beginning of this Agreement and in the Recitals hereto, for purposes of this Agreement the following terms shall have the meanings set forth beside them below.

**Control Area** means an electric system or systems, bounded by interconnection metering and telemetry, capable of controlling generation to maintain its interchange schedule with other Control Areas and contributing to frequency regulation of the Western Interconnection.

**FERC** means the Federal Energy Regulatory Commission or a successor agency.

**Member** means any party to the WECC Agreement.

**Party** means either the Generator or the Transmission Operator and **Parties** means both of the Generator and the Transmission Operator.

**Reliability Management System or RMS** means the contractual reliability management program implemented through the WECC Reliability Criteria Agreement, the WECC RMS Agreement, this Agreement, and any similar contractual arrangement.

**Western Interconnection** means the area comprising those states and provinces, or portions thereof, in Western Canada, Northern Mexico and the Western United States in which Members of the WECC operate synchronously connected transmission systems.

**Working Day** means Monday through Friday except for recognized legal holidays in the state in which any notice is received pursuant to Section 7.

**WECC** means the Western Electricity Coordinating Council (formerly known as the Western Systems Coordinating Council) or a successor entity.

**WECC Agreement** means the Western Systems Coordinating Council Agreement dated March 20, 1967, as such may be amended from time to time.

**WECC Reliability Criteria Agreement** means the Western Systems Coordinating Council Reliability Criteria Agreement dated June 18, 1999 among the WECC and certain of its member transmission operators, as such may be amended from time to time.

**WECC RMS Agreement** means an agreement between the WECC and the Transmission Operator requiring the Transmission Operator to comply with the reliability criteria contained in the WECC Reliability Criteria Agreement.

**WECC Staff** means those employees of the WECC, including personnel hired by the WECC on a contract basis, designated as responsible for the administration of the RMS.

### **3. TERM AND TERMINATION**

#### **3.1 Term.**

This Agreement shall become effective on the later of:

- (a) the date of execution; or
- (b) the effective date of the WECC RMS Agreement

#### **3.2 Notice of Termination of WECC RMS Agreement.**

The Transmission Operator shall give the Generator notice of any notice of termination of the WECC RMS Agreement by the WECC or by the Transmission Operator within

fifteen (15) days of receipt by the WECC or the Transmission Operator of such notice of termination.

### **3.3 Termination by the Generator.**

The Generator may terminate this Agreement as follows:

- (a) following the termination of the WECC RMS Agreement for any reason by the WECC or by the Transmission Operator, provided such notice is provided within forty-five (45) days of the termination of the WECC RMS Agreement;
- (b) following the effective date of an amendment to the requirements of the WECC Reliability Criteria Agreement that adversely affects the Generator, provided notice of such termination is given within forty-five (45) days of the date of issuance of a FERC order accepting such amendment for filing, provided further that the forty-five (45) day period within which notice of termination is required may be extended by the Generator for an additional forty-five (45) days if the Generator gives written notice to the Transmission Operator of such requested extension within the initial forty-five (45) day period; or
- (c) for any reason on six (6) months written notice to the Transmission Operator and the WECC.

### **3.4 Termination by the Transmission Operator.**

The Transmission Operator may terminate this Agreement as follows:

- (a) on thirty (30) days written notice following the termination of the WECC RMS Agreement for any reason by the WECC or by the Transmission Operator, provided such notice is provided within thirty (30) days of the termination of the WECC RMS Agreement;
- (b) following the effective date of an amendment to the requirements of the WECC Reliability Criteria Agreement that adversely affects the Transmission Operator, provided notice of such termination is given within forty-five (45) days of the date of issuance of a FERC order accepting such amendment for filing, provided further that the forty-five (45) day period within which notice of termination is required may be extended by the Transmission Operator for an additional forty-five (45) days if the Transmission Operator gives written notice to the Generator of such requested extension within the initial forty-five (45) day period; or
- (c) for any reason on six (6) months written notice to the Generator and the WECC.

**3.5 Mutual Agreement.**

This Agreement may be terminated at any time by the mutual agreement of the Transmission Operator and the Generator.

**4. COMPLIANCE WITH AND AMENDMENT OF WECC RELIABILITY CRITERIA****4.1 Compliance with Reliability Criteria.**

The Generator agrees to comply with the requirements of the WECC Reliability Criteria Agreement, including the applicable WECC reliability criteria contained in Section IV of Annex A thereof, and, in the event of failure to comply, agrees to be subject to the sanctions applicable to such failure. Each and all of the provisions of the WECC Reliability Criteria Agreement are hereby incorporated by reference into this Agreement as though set forth fully herein, and the Generator shall for all purposes be considered a Participant, and shall be entitled to all of the rights and privileges and be subject to all of the obligations of a Participant, under and in connection with the WECC Reliability Criteria Agreement, including but not limited to the rights, privileges and obligations set forth in Sections 5, 6 and 10 of the WECC Reliability Criteria Agreement.

**4.2 Modifications to WECC Reliability Criteria Agreement.**

The Transmission Operator shall notify the Generator within fifteen (15) days of the receipt of notice from the WECC of the initiation of any WECC process to modify the WECC Reliability Criteria Agreement. The WECC RMS Agreement specifies that such process shall comply with the procedures, rules, and regulations then applicable to the WECC for modifications to reliability criteria.

**4.3 Notice of Modifications to WECC Reliability Criteria Agreement.**

If, following the process specified in Section 4.2, any modification to the WECC Reliability Criteria Agreement is to take effect, the Transmission Operator shall provide notice to the Generator at least forty-five (45) days before such modification is scheduled to take effect.

**4.4 Effective Date.**

Any modification to the WECC Reliability Criteria Agreement shall take effect on the date specified by FERC in an order accepting such modification for filing.

**4.5 Transfer of Control or Sale of Generation Facilities.**

In any sale or transfer of control of any generation facilities subject to this Agreement, the Generator shall as a condition of such sale or transfer require the acquiring party or transferee with respect to the transferred facilities either to assume the obligations of the Generator with respect to this Agreement or to enter into an agreement with the Control Area Operator in substantially the form of this Agreement.

## **5. SANCTIONS**

### **5.1 Payment of Monetary Sanctions.**

The Generator shall be responsible for payment directly to the WECC of any monetary sanction assessed against the Generator pursuant to this Agreement and the WECC Reliability Criteria Agreement. Any such payment shall be made pursuant to the procedures specified in the WECC Reliability Criteria Agreement.

### **5.2 Publication.**

The Generator consents to the release by the WECC of information related to the Generator's compliance with this Agreement only in accordance with the WECC Reliability Criteria Agreement.

### **5.3 Reserved Rights.**

Nothing in the RMS or the WECC Reliability Criteria Agreement shall affect the right of the Transmission Operator, subject to any necessary regulatory approval, to take such other measures to maintain reliability, including disconnection, which the Transmission Operator may otherwise be entitled to take.

## **6. THIRD PARTIES**

Except for the rights and obligations between the WECC and Generator specified in Sections 4 and 5, this Agreement creates contractual rights and obligations solely between the Parties. Nothing in this Agreement shall create, as between the Parties or with respect to the WECC: (1) any obligation or liability whatsoever (other than as expressly provided in this Agreement), or (2) any duty or standard of care whatsoever. In addition, nothing in this Agreement shall create any duty, liability, or standard of care whatsoever as to any other party. Except for the rights, as a third-party beneficiary with respect to Sections 4 and 5, of the WECC against Generator, no third party shall have any rights whatsoever with respect to enforcement of any provision of this Agreement. Transmission Operator and Generator expressly intend that the WECC is a third-party beneficiary to this Agreement, and the WECC shall have the right to seek to enforce against Generator any provisions of Sections 4 and 5, provided that specific performance shall be the sole remedy available to the WECC pursuant to this Agreement, and Generator shall not be liable to the WECC pursuant to this Agreement for damages of any kind whatsoever (other than the payment of sanctions to the WECC, if so construed), whether direct, compensatory, special, indirect, consequential, or punitive.

## **7. NOTICES**

Any notice, demand or request required or authorized by this Agreement to be given in writing to a Party shall be delivered by hand, courier or overnight delivery service, mailed by certified mail (return receipt requested) postage prepaid, faxed, or delivered by mutually agreed electronic means to such Party at the following address:

**Salt River Project Agricultural Improvement and Power District:**

Attn: Secretary  
P.O. Box 52025  
Phoenix, AZ 85072-2025

**Duke Energy Arlington Valley, LLC:**

c/o Duke Energy North America, LLC  
Asset Management  
Attn: Director of Asset Management  
4 Triad Center, Suite 900  
Salt Lake City, UT 84108

The designation of such person and/or address may be changed at any time by either Party upon receipt by the other of written notice. Such a notice served by mail shall be effective upon receipt. Notice transmitted by facsimile shall be effective upon receipt if received prior to 5:00 p.m. on a Working Day, and if not received prior to 5:00 p.m. on a Working Day, receipt shall be effective on the next Working Day.

**8. APPLICABILITY**

This Agreement (including all appendices hereto and, by reference, the WECC Reliability Criteria Agreement) constitutes the entire understanding between the Parties hereto with respect to the subject matter hereof, supersedes any and all previous understandings between the Parties with respect to the subject matter hereof, and binds and inures to the benefit of the Parties and their successors.

**9. AMENDMENT**

No amendment of all or any part of this Agreement shall be valid unless it is reduced to writing and signed by both Parties hereto. The terms and conditions herein specified shall remain in effect throughout the term and shall not be subject to change through application to the FERC or other governmental body or authority, absent the agreement of the Parties.

**10. INTERPRETATION**

Interpretation and performance of this Agreement shall be in accordance with, and shall be controlled by, the laws of the State of Arizona but without giving effect to the provisions thereof relating to conflicts of law. Article and section headings are for convenience only and shall not affect the interpretation of this Agreement. References to articles, sections and appendices are, unless the context otherwise requires, references to articles, sections and appendices of this Agreement.

**11. PROHIBITION ON ASSIGNMENT**

This Agreement may not be assigned by either Party without the consent of the other Party, which consent shall not be unreasonably withheld; provided that the Generator may without the consent of the WECC assign the obligations of the Generator pursuant to this Agreement to a transferee with respect to any obligations assumed by the transferee by virtue of Section 4.5 of this Agreement.

**12. SEVERABILITY**

If one or more provisions herein shall be invalid, illegal or unenforceable in any respect, it shall be given effect to the extent permitted by applicable law, and such invalidity, illegality or unenforceability shall not affect the validity of the other provisions of this Agreement.

**13. COUNTERPARTS**

This Agreement may be executed in counterparts and each shall have the same force and effect as an original.

IN WITNESS WHEREOF, the Transmission Operator and the Generator have each caused this Reliability Management System Agreement to be executed by their respective duly authorized officers as of the date first above written.

**Salt River Project Agricultural Improvement and Power District**By: Darryl W. HarperName: Darryl W. HarperTitle: Manager System OperationsDate: June 19, 2002**Duke Energy Arlington Valley, LLC**By: Paul X. English, III

Name: Paul X. English, III

Title: Vice President

Date: 14 JUNE 2002 *ap*

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# **SOUTHWEST RESERVE SHARING GROUP**

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## **PARTICIPATION AGREEMENT**

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Execution Copy

SOUTHWEST RESERVE SHARING GROUPPARTICIPATION AGREEMENTTABLE OF CONTENTS

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## SOUTHWEST RESERVE SHARING GROUP

## PARTICIPATION AGREEMENT

## 1. PARTIES:

The Parties to this SOUTHWEST RESERVE SHARING GROUP PARTICIPATION AGREEMENT are: ARIZONA ELECTRIC POWER COOPERATIVE, INC., an incorporated cooperative association organized and existing under the laws of the State of Arizona (hereinafter called "AEPC"); ARIZONA PUBLIC SERVICE COMPANY, an Arizona corporation (hereinafter called "APS"); CITY OF FARMINGTON, an incorporated municipality existing as a political subdivision under the laws of the State of New Mexico (hereinafter called "FARM"); EL PASO ELECTRIC COMPANY, a Texas corporation (hereinafter called "EPE"); INCORPORATED COUNTY OF LOS ALAMOS, a political subdivision of the State of New Mexico (hereinafter called "LAC"); NEVADA POWER COMPANY, a Nevada corporation (hereinafter called "NEVP"); PLAINS ELECTRIC GENERATION AND TRANSMISSION COOPERATIVE, INC., an incorporated cooperative association organized and existing under the laws of the State of New Mexico (hereinafter called "PEGT"); PUBLIC SERVICE COMPANY OF NEW MEXICO, a New Mexico corporation (hereinafter called "PNM"); SALT RIVER PROJECT AGRICULTURAL IMPROVEMENT AND POWER DISTRICT, an agricultural improvement district organized and existing under the laws of the State of Arizona (hereinafter called "SRP"); TUCSON ELECTRIC POWER COMPANY, an Arizona corporation (hereinafter called "TEP"); and THE UNITED STATES OF AMERICA, WESTERN AREA POWER ADMINISTRATION, DESERT SOUTHWEST REGION represented by the officer executing this Agreement, a duly appointed successor or a duly authorized representative, pursuant to the Acts of Congress dated June 17, 1902 (32 Stat. 388), and August 4, 1977 (91 Stat. 565), and acts amendatory thereof or supplementary

1 thereto (hereinafter called "WALC"). The entities listed above are hereinafter referred  
2 to collectively as "Parties" and individually as "Party."

3 2. RECITALS:

4 2.1 Parties from Arizona, Nevada, New Mexico, and West Texas have developed a  
5 conceptual framework for a regional reserve sharing group that for some  
6 Parties will replace their Inland Power Pool membership when the Amended  
7 and Restated Inland Power Pool Agreement expires on December 31, 1997.

8 2.2 The Southwest Reserve Sharing Group (SRSG) will allow for sharing of  
9 Contingency Reserves among the Parties in order to realize a more efficient  
10 and economic power system operation while maintaining the reliability of the  
11 interconnected system. Any other reserve obligation necessary to meet North  
12 American Electric Reliability Council (NERC) and Western Systems  
13 Coordinating Council (WSCC) criteria will continue to be the responsibility of  
14 each Party.

15 2.3 It is the intent of the Parties to meet or exceed all WSCC and NERC reliability  
16 criteria, as such criteria may be amended, modified, or revised.

17 2.4 The Parties believe that this Agreement will yield important benefits to their  
18 respective customers or members. Such benefits include the following:

19 2.4.1 The combined Loads of the Parties can be supplied and protected with  
20 less aggregate Contingency Reserve resulting in a net savings in  
21 operating expenses.

22 2.4.2 Emergency conditions can be met with less likelihood of curtailment or  
23 impairment of electric service to customers or members of the Parties.

24 2.4.3 The Parties can promote, facilitate, and coordinate the operation of the  
25 respective Systems of the Parties, to the benefit of the interconnected  
26 system.

2.5 Each Party is willing to utilize its respective electric generation and transmission systems to the extent of its respective obligations which are set forth in this Agreement.

3. **AGREEMENT:**

In consideration of the mutual covenants and promises herein set forth, the Parties agree as follows:

4. **DEFINITIONS:**

The following terms, whether in the singular or in the plural, when initially capitalized in this Agreement, shall have the meanings specified:

4.1 Administrative Costs - Costs incurred by the SRSG Administrator in performing ongoing administrative functions assigned pursuant to Section 8.1 herein.

4.2 Administrator Site System - A computer application system, operated and maintained by the SRSG Administrator, that (i) contains the data provided by each Party, (ii) provides tools for the maintenance of such data, and (iii) provides a means to determine and allocate reserve quotas, Emergency Assistance, reserve penalties and settlements to each Party.

4.3 Agreement - This Southwest Reserve Sharing Group Participation Agreement, together with the Service Schedules, attachments thereto, and Exhibits.

4.4 Agreement Developmental Fee - A fee charged to new members which reflects costs incurred by the Parties in the formation of the SRSG. Such fee shall be determined in accordance with Exhibit C attached hereto.

4.5 Area Control Error (ACE) - The instantaneous difference between actual and scheduled interchange, taking into account the effects of frequency bias (and time error or unilateral inadvertent interchange if automatic correction for either is part of the system's automatic generation control).

4.6 Capacity - The rated continuous load-carrying ability, expressed in megawatts

(MW) or megavoltamperes (MVA) of generation, transmission, or other electrical equipment.

4.7 Capital Expenditures - All capital costs incurred by the SRSG in association with making enhancements to, or the replacement of, the initial hardware and software system of the SRSG.

4.8 Contingency Reserve - A portion of Operating Reserve, sufficient to reduce ACE to meet the NERC Disturbance Control Standard following the Most Severe Single Contingency. Contingency Reserve consists of both Spinning Reserve and Non-Spinning Reserve; however, at least fifty percent (50%) of this Contingency Reserve shall be Spinning Reserve. Any Spinning Reserve in excess of a Party's Spinning Reserve quota may count towards its remaining Contingency Reserve quota.

4.9 Control Area - An area comprised of an electrical system or systems, bound by interconnection metering and telemetry, capable of controlling generation to maintain its interchange schedule with other Control Areas and contributing to frequency regulation of the interconnection.

4.10 Developmental Costs - All costs incurred in the initial development of the hardware and software systems associated with the Administrator Site System.

4.11 Disturbance - The sudden loss of a Party's transmission or generation Capacity that causes an ACE of a magnitude that requires immediate action to meet NERC performance criteria.

4.12 Emergency - An abnormal system condition which requires immediate manual or automatic action to prevent loss of Firm Load, equipment damage, or to prevent tripping of system elements that could adversely affect the reliability of the electric system.

4.13 Emergency Assistance - Energy furnished to a Party under Emergency

conditions when power supply to the Party's Firm Commitments is threatened or curtailed.

4.14 Energy - The accumulated amount of power delivered over a stated time interval; usually expressed in megawatt hours (MWh).

4.15 Executive Committee - That committee established pursuant to Section 8 herein.

4.16 Exhibits - Exhibits A, B, and C attached hereto, as they may be amended, modified, or revised.

4.17 Firm Commitment - The Load associated with wholesale and retail power customers on whose behalf the Party, by statute, franchise, regulatory requirement, or contract, has undertaken an obligation to operate the Party's system to meet the reliable electric needs of such customers. For SRSG purposes, Firm Commitment shall be calculated as the sum of Firm Load, plus SRSG Firm Deliveries, less SRSG Firm Receipts.

4.18 Firm Load - Power and Energy requirements (including system losses) of customers which a Party is obligated to supply at all times.

4.19 Funding Agreement No. 2 - The Southwest Reserve Sharing Group Funding Agreement No. 2 executed by the Parties on July 2, 1997.

4.20 Interim Funding Agreement No. 1 - The Southwest Reserve Sharing Group Interim Funding Agreement No. 1 executed by the Parties on February 28, 1997.

4.21 Load - An end-use device or customer that receives power from the electric system.

4.22 Most Severe Single Contingency - That Single Contingency which results in the most adverse system performance under any operating condition or anticipated mode of operation.

- 1        4.23    NERC Disturbance Control Standard (DCS) - The NERC Disturbance Control  
2                    Standard established in accordance with NERC Policy 1, as it may be  
3                    amended, modified, or revised.
- 4        4.24    Non-Spinning Reserve - That portion of Operating Reserve not connected to  
5                    the system but capable of serving demand within ten (10) minutes, or  
6                    interruptible Load that can be removed from the system within ten (10)  
7                    minutes.
- 8        4.25    Operating Committee - That committee established pursuant to Section 8  
9                    herein.
- 10       4.26    Operating Procedure - Written procedures, developed and approved by the  
11                    Operating Committee pursuant to Section 8 herein, to implement specific  
12                    provisions of this Agreement.
- 13       4.27    Operating Reserve - That capability above firm system demand required to  
14                    provide for regulation, Load forecasting error, forced and scheduled outages,  
15                    and local area protection. Operating Reserve consists of Spinning Reserve  
16                    and Non-Spinning Reserve.
- 17       4.28    Peak Commitment - The highest hourly Firm Commitment during a designated  
18                    time period.
- 19       4.29    Service Schedule - A specific written agreement among the Parties for the  
20                    purposes of dictating or specifying methods of coordination, operation,  
21                    maintenance, or planning of the respective Systems, for improving the reliability  
22                    of power supply and achieving economics for the customers or members  
23                    served by the Parties.
- 24       4.30    Single Contingency - The loss of a single system element under any operating  
25                    condition or anticipated mode of operation.
- 26       4.31    Spinning Reserve - Unloaded generation which is synchronized and ready to

1 serve additional demand.

2 4.32 SRSG - The Southwest Reserve Sharing Group.

3 4.33 SRSG Administrator - That Party or entity designated to perform duties as  
4 provided for in Section 8 herein.

5 4.34 SRSG Emergency Assistance Matrices - Those matrices depicting the  
6 allocation of Emergency Assistance among the Parties.

7 4.35 SRSG Firm Deliveries - Deliveries which are not recallable in less than ten (10)  
8 minutes.

9 4.36 SRSG Firm Receipts - Receipts which are not recallable in less than sixty (60)  
10 minutes.

11 4.37 System - The integrated electrical facilities, which may include generation,  
12 transmission and distribution facilities, that are controlled by one organization.

13 4.38 WSCC Minimum Operating Reliability Criteria - WSCC Minimum Operating  
14 Reliability Criteria dated March 11, 1997, as such criteria may be amended,  
15 modified, or revised.

16 5. EFFECTIVE DATE AND TERM:

17 5.1 This Agreement shall become effective on the later of: (i) when duly executed  
18 by all Parties, (ii) when filed with the Federal Energy Regulatory Commission  
19 for acceptance, or (iii) January 1, 1998. This Agreement shall continue in  
20 effect for a period of ten (10) years from said effective date and thereafter on a  
21 year to year basis until terminated by the Parties; provided, however, that any  
22 Party may withdraw its participation at any time after the effective date of this  
23 Agreement by providing written notice to the Executive Committee at least one  
24 (1) year in advance of its effective date of withdrawal, unless a shorter period  
25 of time is agreed to by all Parties.

26 5.2 As of the effective date of withdrawal, the withdrawing Party shall have no

1 further rights or obligations under this Agreement, except payment of amounts  
2 then or previously due. Such amounts shall include any financial obligation  
3 incurred hereunder prior to the effective date of withdrawal and any amounts  
4 incurred by the SRSG Administrator in processing the withdrawal of such Party.

5 5.3 Neither expiration, termination nor voiding of this Agreement shall relieve a  
6 Party of its obligation to make payment of amounts due hereunder.

7 5.4 No Party shall oppose before any regulatory agencies having jurisdiction, a  
8 Party's withdrawal from this Agreement, so long as the provisions of Sections  
9 5.1 and 5.2 herein have been met.

10 6. RESOLUTION OF CONFLICTS:

11 In the event of a conflict between the terms and conditions of this Agreement and a  
12 Service Schedule, the terms and conditions of the Service Schedule shall prevail.

13 7. PARTY OBLIGATIONS:

14 7.1 It is the intent of the Parties to meet or exceed the WSCC Minimum Operating  
15 Reliability Criteria and the NERC Control Performance And Disturbance Control  
16 Standards, as they may be adopted, modified, or revised.

17 7.2 The SRSG has been formed for the purpose of sharing Contingency Reserves.  
18 Each Party shall maintain, or cause to be maintained, an amount of  
19 Contingency Reserve equal to or greater than its Contingency Reserve  
20 requirement, as such requirement shall be determined in accordance with  
21 Service Schedules A and B attached hereto.

22 7.3 Each Party shall activate and provide its Contingency Reserves to other  
23 Parties, as requested, in accordance with Service Schedule B attached hereto.

24 7.4 Each Party shall operate its System continuously in parallel; provided, however,  
25 that each Party shall have the right to temporarily separate the facilities of its  
26 System from the System of any other Party when, in the judgment of the

1 separating Party, abnormal operating conditions exist which require such  
2 separation to prevent damage to its facilities, injuries to personnel or  
3 impairment of service to its customers or members; and for necessary  
4 inspection, maintenance, repair or replacement of its facilities, or additional  
5 construction.

6 7.5 Each Party shall exercise reasonable efforts to construct, operate and maintain  
7 its System to avoid the likelihood of a Disturbance originating within its System  
8 causing an impairment of service in the Systems of other Parties and to  
9 minimize the exposure to damage resulting from Disturbances on the System  
10 of other Parties.

11 7.6 The Parties shall comply with all SRSG Operating Procedures.

12 7.7 Any Party within a Control Area may make arrangements with the host Control  
13 Area to provide or share reserve responsibilities between themselves or third  
14 parties, to include billings for reserve deficiency, or any other services  
15 rendered, so long as the total reserve responsibility is accommodated.

16 7.8 Each Party shall be responsible to provide and maintain hardware and software  
17 which is compatible with the Administrator Site System for complying with the  
18 reporting requirements of this Agreement.

19 7.9 Each Party is responsible for any financial obligation derived from its  
20 membership herein.

21 7.10 Each Party shall be responsible for its share of costs and expenses attributable  
22 to the SRSG Administrator performing its functions pursuant to this Agreement.

23 7.11 Each Party shall cooperate with the SRSG Administrator and provide the  
24 SRSG Administrator information necessary for the performance of its duties  
25 herein.

26 8. ORGANIZATION AND ADMINISTRATION:

1 As a means of securing effective and timely cooperation within the activities of the  
2 SRSG and a means of facilitating the administration, coordination, operations and  
3 problem solving, the Parties hereby establish (i) the role of a SRSG Administrator, (ii)  
4 an Executive Committee, and (iii) an Operating Committee.

5 8.1 SRSG Administrator

6 8.1.1 The SRSG Administrator shall be designated by the Operating  
7 Committee from among the Parties of the SRSG; provided, however,  
8 that the Operating Committee, with the approval of the Executive  
9 Committee, may designate an entity other than a Party to serve as  
10 SRSG Administrator.

11 8.1.2 The SRSG Administrator may resign by providing written notice to both  
12 the Executive Committee and the Operating Committee at least one (1)  
13 year in advance of the effective date of its resignation, unless a shorter  
14 period of time is agreed to by all Parties.

15 8.1.3 The SRSG Administrator may be removed at any time by the Executive  
16 Committee, with or without cause.

17 8.1.4 Upon resignation or removal of the SRSG Administrator pursuant to  
18 Section 8.1.2 or Section 8.1.3 herein, the outgoing SRSG Administrator  
19 shall:

20 8.1.4.1 Transfer and provide technical training regarding all hardware,  
21 software, and all other material owned by the SRSG or owned  
22 on behalf of the SRSG to the new SRSG Administrator; and

23 8.1.4.2 Settle all outstanding financial obligations corresponding with  
24 its term as SRSG Administrator and transfer any remaining  
25 SRSG funds to the new SRSG Administrator.

26 8.1.5 The SRSG Administrator shall be responsible for performing its

1 assigned duties in accordance with Operating Procedures established  
2 by the Operating Committee. Such duties shall include, but not be  
3 limited to the following:

4 8.1.5.1 Data - Data collection, data monitoring, and data processing.

5 8.1.5.2 Preparation and Consolidation of Reports

6 8.1.5.2.1 Maintenance and preservation of all records  
7 (including both the Executive Committee and  
8 Operating Committee meeting minutes and  
9 Operating Procedures) reasonably necessary for  
10 the performance of the duties hereunder.

11 8.1.5.2.2 Submission of an annual budget to the Operating  
12 Committee and the tracking of SRSG related  
13 expenses.

14 8.1.5.2.3 Preparation and distribution of SRSG reports  
15 required by NERC, WSCC, and the Operating  
16 Committee.

17 8.1.5.3 Administrator Site System - The SRSG Administrator shall be  
18 responsible for the procurement, operation, maintenance, and  
19 the coordination of the Administrator Site System.

20 8.1.5.4 Payments - The SRSG Administrator shall be responsible for  
21 the payment of invoices and the distribution of funds in  
22 accordance with this Agreement.

23 8.1.5.5 Other Duties as Assigned - Such other duties shall include but  
24 not be limited to the following:

25 8.1.5.5.1 Training and consulting for the Parties in  
26 association with questions or problems relating to

SRSG reserves and SRSG data reporting;

8.1.5.5.2 Certify that an applicant has met all membership eligibility criteria as set forth in Section 9 herein;

8.1.5.5.3 Notify the Executive Committee and all Parties that an applicant has met all membership criteria and is now a Party to the SRSG;

8.1.5.5.4 Notify all Parties when an existing Party(ies) is not in compliance with this Agreement.

8.1.5.5.5 Bill each Party for its share of expenses incurred pursuant to Section 13 herein.

8.1.5.5.6 Cooperate with an audit request of the Operating Committee pursuant to Section 14 herein.

8.1.5.5.7 Make available during its normal business hours all the records and accounts maintained by the SRSG Administrator pertaining to the requesting Party(ies) and pursuant to activities and responsibilities hereunder. Such records shall be made available in a timely manner and at the requesting Party's expense.

## 8.2 Executive Committee

The Executive Committee shall consist of one representative from each Party designated pursuant to Section 8.4 herein. The responsibilities of the Executive Committee are as follows:

8.2.1 To establish additional subcommittees as it may from time to time deem necessary;

8.2.2 To review at least annually the activities of all committees to ensure

1 their activities are coordinated and consistent with the spirit and intent  
2 of this Agreement;

3 8.2.3 To review unresolved disputes which may arise within the SRSG and  
4 resolve the disputes pursuant to Section 15 herein;

5 8.2.4 To review and approve the annual budget of the SRSG;

6 8.2.5 To review and recommend to the Parties for approval additions or  
7 amendments to this Agreement;

8 8.2.6 To receive, review, and process an applicant's written request to  
9 become a Party, in accordance with Section 9 herein and where  
10 applicable, notify entities of their SRSG eligibility in accordance with  
11 Section 10.2 herein;

12 8.2.7 To establish, review, approve, and maintain procedures for the  
13 determination and recertification of creditworthiness for new applicants  
14 and existing members respectively;

15 8.2.8 To establish procedures for the allocation to and payment by any new  
16 Party to the existing Parties for the past, current and future cost of  
17 facilities, equipment, services, or other costs such as software that are  
18 of benefit to all Parties;

19 8.2.9 To review and process, in accordance with Section 5 herein, the notice  
20 by a Party to withdraw as a Party to this Agreement;

21 8.2.10 To review and process the termination of a Party's rights and  
22 obligations under this Agreement;

23 8.2.11 To provide minutes for all Executive Committee meetings and distribute  
24 copies of such minutes to all committee members and to the SRSG  
25 Administrator; and

26 8.2.12 To do such other things and carry out such duties as specifically

required or authorized by this Agreement.

8.3 Operating Committee

The Operating Committee shall consist of one representative from each Party designated pursuant to Section 8.4 herein. The responsibilities of the Operating Committee are as follows:

8.3.1 To establish Operating Procedures for the sharing of Contingency Reserves such that the SRSG will meet or exceed the WSCC Minimum Operating Reliability Criteria and NERC's Disturbance Control Standards relative to Contingency Reserves, as they may be amended, modified, or revised;

8.3.2 To establish, review, approve, and modify Operating Procedures, consistent with the provisions herein, for the guidance of operating employees in the Parties' Systems as to matters affecting the ability to maintain Contingency Reserves, the delivery and receipt of Emergency Assistance, and other similar operating matters;

8.3.3 To establish, review, approve, and modify Operating Procedures for determining the ratings of the generating facilities of the Parties;

8.3.4 To establish, review, approve and modify Operating Procedures for calculating Contingency Reserves within the SRSG;

8.3.5 To establish, review, approve, and modify Operating Procedures relating to Contingency Reserve deficiencies;

8.3.6 To establish, review, approve, and modify Operating Procedures relating to suspension or termination of a Party from this Agreement;

8.3.7 To establish a "Disturbance Review" task force to review all SRSG Disturbances to ensure that all SRSG and individual Party reliability obligations are being met;

- 1 8.3.8 To ensure the proper level and location of reserves;
- 2 8.3.9 To designate a SRSG Administrator to function under the direction of
- 3 the Operating Committee;
- 4 8.3.10 To review and recommend, as necessary, the types and arrangement
- 5 of equipment and associated communication facilities needed for SRSG
- 6 operations;
- 7 8.3.11 To review and recommend approval of the annual budget, prepared by
- 8 the SRSG Administrator, to the Executive Committee;
- 9 8.3.12 To develop, review, approve, and recommend changes to the SRSG
- 10 Emergency Assistance Matrices;
- 11 8.3.13 To review and process the suspension of all benefits of reserve sharing
- 12 and applicable reserve sharing obligations of a Party;
- 13 8.3.14 To recommend the termination of a Party from the Agreement to the
- 14 Executive Committee ;
- 15 8.3.15 To provide minutes for all Operating Committee meetings and distribute
- 16 copies of such minutes to all committee members and to the SRSG
- 17 Administrator; and
- 18 8.3.16 To do such other things and carry out such duties as specifically
- 19 required or authorized by this Agreement.

20 8.4 General

- 21 8.4.1 Each Party shall designate, in accordance with Section 18 herein, its
- 22 representative and alternate representative (to act in the absence of the
- 23 designated representative) on each committee within thirty (30) days
- 24 after the execution of this Agreement. Notice of any change of
- 25 representation shall be given by written notice to the other Parties and
- 26 the SRSG Administrator. Each Party's designated representatives or

1 alternate representatives will be authorized to act on its behalf with  
2 respect to those committee responsibilities provided herein.

3 8.4.2 Each committee shall meet at least annually.

4 8.4.3 Each committee will elect a chairperson and establish a meeting  
5 protocol at its first meeting.

6 8.4.4 Each committee shall elect a new chairperson at least every two (2)  
7 years thereafter, provided, that a succeeding chairperson may not be  
8 from the same Party.

9 8.4.5 No committee shall have the authority to amend this Agreement.

10 9. MEMBERSHIP ELIGIBILITY AND CERTIFICATION:

11 An entity may apply and become a Party to this Agreement by submitting to the  
12 Executive Committee a written request for membership to the SRSG, accompanied by  
13 a non-refundable application fee of five thousand dollars (\$5,000), and by  
14 demonstrating to the satisfaction of the Executive Committee that the entity can  
15 continuously meet the criteria and certification requirements set forth below:

16 9.1 It is eligible to file a request for transmission service pursuant to Section 211 of  
17 the Federal Power Act.

18 9.2 It can maintain, provide and receive reserves, by contractual arrangement or  
19 otherwise, as required pursuant to this Agreement, and is able to deliver and  
20 receive Energy associated with these reserves at one or more of the following  
21 high voltage switchyards:

22 (a) Four Corners 230 kV or 345 kV Switchyards;

23 (b) Navajo 500 kV Switchyard;

24 (c) Palo Verde 500 kV Switchyard;

25 (d) San Juan 345 kV Switchyard;

26 (e) Westwing 500 kV Switchyard;

- (f) Shiprock 345 kV Switchyard;
- (g) Mead 230 kV, 345 kV, or 500 kV Switchyards;
- (h) Greenlee 345kV Switchyard;
- (i) West Mesa 345kV, Switchyard;
- (j) Other switchyards as may be determined by the Operating Committee.

9.3 It has established appropriate creditworthiness consistent with the criteria established in accordance with Section 8.2.7 herein.

9.4 It has the ability to provide documentation of an ACE or ACE equivalent measurement. The SRSG will operate using all individual Party's ACE data for Disturbance evaluation.

9.5 It has the ability to comply with all applicable terms and conditions established pursuant to Service Schedules A and B hereto.

9.6 Upon demonstrating to the satisfaction of the Executive Committee that such entity meets the criteria set forth in Sections 9.1 through 9.5 herein, the entity shall be deemed eligible to become a Party.

9.7 Once the entity has been deemed eligible to become a Party, the Executive Committee shall direct the SRSG Administrator to begin the certification process.

9.8 The certification process shall consist of the following: (i) execution of this Agreement or a counterpart hereof; (ii) verification from the SRSG Administrator that such entity is current with all its payment obligations relative to the SRSG, and (iii) verification from the SRSG Administrator that such entity has provided the required data to the SRSG Administrator and has in place the required facilities to effectively transmit and receive data with the Administrator Site System.

1 9.9 Upon successful completion of the certification process, the entity shall be  
2 deemed a Party and the SRSG Administrator shall provide notification to the  
3 Executive Committee and all Parties.

4 10. COST RESPONSIBILITIES:

5 10.1 The costs of the SRSG shall be allocated as follows:

6 10.1.1 All Developmental Costs and Capital Expenditures, approved by the  
7 Executive Committee, will be allocated equally among all Parties.  
8 Payments made by a Party pursuant to the Interim Funding Agreement  
9 No. 1 and the Funding Agreement No. 2 shall be credited towards such  
10 Party's share of Developmental Costs.

11 10.1.2 Annual Administrative Costs, as set forth in the annual operating  
12 budget, will be allocated to the Parties as follows:

13 10.1.2.1 One-half (1/2) of the on-going Administrative Costs incurred  
14 shall be allocated equally among all Parties;

15 10.1.2.2 One-half (1/2) of the on-going Administrative Costs incurred  
16 shall be allocated to each Party in accordance with the ratio of  
17 its Firm Commitments to the total Firm Commitments of the  
18 SRSG at the time of the SRSG annual coincident Peak  
19 Commitment for the previous calendar year.

20 10.2 Each entity eligible to become a Party shall be notified by the Executive  
21 Committee and shall, as a condition of the certification process, pay, within  
22 thirty (30) calendar days following such notification, an entrance fee equal to  
23 the sum of:

24 10.2.1 Its share of Developmental Costs and Capital Expenditures in  
25 accordance with Section 10.1.1 herein; plus

26 10.2.2 An Agreement Developmental Fee determined in accordance with

Exhibit C attached hereto; plus

10.2.3 Administrative Costs for incorporating the entity into the SRSG.

10.3 A new Party shall begin incurring its share of ongoing Administrative Costs upon completion of the certification process set forth in Section 9.8 herein.

11. DISBURSEMENT OF FUNDS:

11.1 Application Fees - Application fees received from applicants pursuant to Section 9 herein, shall be utilized to offset the SRSG Administrator's expenses incurred in processing the application.

11.2 Entrance Fees - Entrance fees received pursuant to Section 10.2 herein, shall be allocated equally to all Parties with the exception that the new Party shall not participate in the allocated disbursement.

11.3 Penalty Funds - Penalty funds assessed by the SRSG Administrator shall be allocated among the Parties using the same methodology utilized to allocate Administrative Costs, with the exception that the penalized Party or Parties shall not participate in the allocated disbursement of such penalty funds.

11.4 Administrative Costs - The initial payment of Administrative Costs received from a new Party pursuant to Section 10.3 herein, shall be allocated among the existing Parties using the same methodology utilized to allocate Administrative Costs.

12. VOTING AND APPROVALS:

All matters requiring approval as provided in this Agreement, shall be approved through the following procedures:

12.1 Amendments - Any amendments to this Agreement shall be approved by unanimous vote of the Parties. Unless otherwise specified, amendments to this Agreement shall become effective when all Party signatures have been received subject to the provisions of Section 19 herein. The Executive

1 Committee chairperson shall be responsible for circulating the appropriate  
2 signature pages to each Party, receiving executed counterparts, notifying the  
3 Parties when all signatures have been received, distributing executed originals  
4 to all Parties and the SRSG Administrator, and ensuring that appropriate  
5 regulatory filings are made.

6 12.2 Operating Procedures - Modification of an Operating Procedure developed  
7 under this Agreement, which has been expressly granted to a committee shall  
8 become effective and apply to all Parties when the necessary affirmative votes  
9 have been received.

10 12.3 Committee Voting - Unless otherwise stated in this Agreement, all matters  
11 requiring committee approval shall be approved by a three-quarters (75%)  
12 majority vote of committee representatives present at a meeting of the  
13 appropriate committee; provided, that a quorum of at least seventy percent  
14 (70%) of the respective representatives or their alternates are in attendance, in  
15 person or represented by proxy. Provided further, that written notice be given  
16 by the committee chairperson to each Party's designated committee  
17 representative(s) at least two (2) weeks in advance of the meeting unless  
18 otherwise agreed. Such notice shall include an agenda of the meeting.

19 12.3.1 A Party casting an abstention vote shall be deemed in attendance for  
20 purposes of determining whether a quorum exists; provided, however,  
21 that determination of whether a three-quarter (75%) majority agreement  
22 of the Parties exists with respect to any issue shall be made by counting  
23 the votes of only the non-abstaining Parties.

24 12.3.2 If a vote is taken by telephone or other direct communication at the  
25 direction of the committee chairperson, all committee representatives or  
26 alternate(s) shall be contacted and given an opportunity to vote. A

three-quarters (75%) majority vote shall be required for approval and the results documented in writing by the committee chairperson. A record of all such votes shall be distributed to all designated committee representative(s) and the SRSG Administrator.

13. BILLING AND PAYMENTS:

All billing and payments associated with this Agreement, shall be in accordance with this Section 13, and as set forth in the applicable Operating Procedure(s).

13.1 The accounting and billing period associated with all charges shall be for one (1) calendar month, unless otherwise specified herein, or agreed to by the Parties in writing. Each bill shall include an itemized list of expenses. Bills sent to any Party shall be sent to the official billing address specified in Exhibit B.

13.2 Charges associated with this Agreement are listed below, but are not limited to:

13.2.1 Administrative Costs - Administrative Costs shall be billed on an annual basis to each Party by the SRSG Administrator.

13.2.2 Capital Expenditures - Capital Expenditures shall be billed monthly to the Parties by the SRSG Administrator, or as otherwise agreed to by the Operating Committee.

13.2.3 Emergency Assistance - Emergency Assistance shall be billed between the Parties on a monthly basis, or as otherwise agreed to among the Parties in writing.

13.3 Bills issued by any Party, or the SRSG Administrator, shall be issued within the first ten (10) days of the month following the month(s) in which services were furnished. Payments for amounts billed shall be due and payable on or before the close of business on the twentieth (20) calendar day after the date of receipt of the bill.

13.4 Payments shall be made by electronic transfer to a bank designated by the

1 Party to which payment is due, or any other method which provides  
2 immediately available funds on the date payment is due. Payments shall be  
3 considered paid when payment is received by the billing Party.

4 13.5 Bills not paid in full on or before the due date shall thereafter accrue an interest  
5 charge equal to the prime rate of interest plus two percent (2%) per annum, or  
6 the maximum interest rate permitted by law, if any, whichever is less, prorated  
7 daily from the date due to the date the amount due is paid in full. The prime  
8 rate shall be as established by the Bank of America, or any other institution  
9 mutually agreed to by the Parties in writing, on the last business day of the  
10 month for which the bill was submitted.

11 13.6 In case any portion of any bill is in dispute, the entire bill shall be paid in full  
12 when due. Any excess amount, which as a result of a dispute may have been  
13 overpaid, shall be returned by the owing Party upon determination of the  
14 correct amount, with interest accrued at the rate specified in Section 13.5  
15 herein, prorated by the number of days from the date of overpayment to the  
16 date of refund.

17 13.7 There shall be no interest accrued on overpayments resulting from inadvertent  
18 errors in payment. Refunds on overpayments shall be limited to a period of  
19 time not to exceed two (2) years from the date payment is received by the  
20 billing Party.

21 14. AUDITS:

22 14.1 Each Party, at reasonable times and at its normal places of business, shall at  
23 no charge make available its records and supporting documentation of any  
24 cost, payment, settlement, or data submittal, not subject to a confidentiality  
25 agreement with a third party, pertaining to any bill rendered to a Party  
26 hereunder for the inspection of that Party for a period of time not to exceed two

(2) years from the date such bills were rendered, unless such data is the subject of an ongoing audit.

14.1.1 A Party requesting to review another Party's records will give such Party sufficient notice of its intent, but in no event less than thirty (30) days prior to the date of the review.

14.1.2 The requesting Party, using personnel from its own staff or its agent, may perform this review.

14.1.3 All costs incurred in performing this review will be at the requesting Party's expense.

14.1.4 The Party performing the review shall not release the other Party's records or disclose any information contained therein to any other Party or third party without written consent of the Party whose records were reviewed, unless otherwise required by law.

14.2 The Operating Committee, at reasonable times and at its normal places of business, may audit a Party's records and supporting documentation of any information submitted to the Administrator Site System, and Disturbance data when applicable. Unless such data is subject to an ongoing audit, no Party shall be required to maintain its records and supporting documentation for any data submitted hereunder for a period of time in excess of two (2) years from the date such data was submitted. Audits shall be limited to a period of time not to exceed two (2) years from the date of the audit request.

## 15. DISPUTE RESOLUTION:

15.1 Any controversy, dispute or claim arising out of, in connection with, or relating to the interpretation of this Agreement, or the alleged breach hereof, shall:

15.1.1 First be submitted to the Operating Committee for resolution. If the Operating Committee representatives are unable to reach resolution

1 within three (3) calendar months or if the aggrieved Party is not satisfied  
2 with the resolution of the Operating Committee, such dispute,  
3 controversy or claim shall be forwarded to the Executive Committee.

4 15.1.2 Upon receipt of a dispute, controversy or claim forwarded in accordance  
5 with Section 15.1.1 herein, the Executive Committee shall meet or  
6 confer within thirty (30) days (or such other period of time as mutually  
7 agreed upon by the representatives of the Executive Committee) to  
8 discuss and attempt to reach a resolution of the dispute controversy or  
9 claim. If the Executive Committee cannot resolve the dispute,  
10 controversy or claim within thirty (30) days after its initial meeting or  
11 conference (or within such other period of time mutually agreed upon by  
12 the representatives of the Executive Committee) or if the aggrieved  
13 Party is not satisfied with the resolution of the Executive Committee, the  
14 aggrieved Party may request and file a petition for arbitration within  
15 thirty (30) days.

16 15.2 If all Parties to the controversy, dispute or claim consent to arbitration, such  
17 arbitration shall be conducted in accordance with the Commercial Arbitration  
18 Rules of the American Arbitration Association. Judgment upon the award  
19 rendered by the arbitrator may be entered in any court having jurisdiction  
20 thereof. The Parties agree to cooperate and use best efforts to arbitrate in a  
21 timely manner. The arbitration is subject to the following:

22 15.2.1 The arbitration shall be heard by one arbitrator. Such arbitrator shall  
23 have experience in the electric utility industry, shall not be a customer of  
24 any Party involved in the dispute, and shall not have any current or past  
25 substantial business or financial relationships with any Party involved in  
26 the dispute.

1 15.2.2 The arbitrator shall have the discretion to order a pre-hearing exchange  
2 of information by the Parties involved in the dispute, including, without  
3 limitation, production of requested documents, exchange of summaries  
4 of testimony of proposed witnesses, and examination by deposition of  
5 Parties involved in the dispute.

6 15.2.3 The arbitration shall be conducted in accordance with the American  
7 Arbitration Association's Commercial Arbitration Rules ("Rules") in  
8 effect at the time of the arbitration.

9 15.2.4 The arbitrator shall have the authority to award any remedy or relief that  
10 a state or federal court which would have jurisdiction over the dispute  
11 could grant.

12 15.2.5 The arbitration award shall be in writing and shall specify the factual  
13 and legal basis for the award. The award shall be final and binding  
14 upon the Parties involved in the dispute except with respect to issues  
15 over which FERC, RUS, or other entities having jurisdictional authority  
16 have retained ultimate authority to resolve, in which case, an aggrieved  
17 Party may appeal the decision of the arbitrator to that entity having  
18 jurisdiction for review.

19 15.2.6 No Party nor the arbitrator may disclose the existence, content, or  
20 results of any arbitration hereunder without the prior written consent of  
21 all Parties involved in the dispute, unless otherwise required by law.

22 15.2.7 Each Party involved in the dispute shall pay for an equal share of the  
23 arbitrator's fee including travel and lodging.

24 15.2.8 The arbitration shall be governed by the Federal Arbitration Act ("FAA").  
25 If terms and conditions of this Section 15 conflict with the FAA, then the  
26 FAA shall prevail.

1 15.2.9 The prevailing Party in an arbitration proceeding shall be entitled to  
2 reasonable attorneys' fees, expert witness fees, and other incidental  
3 costs incurred in the proceeding, as determined by the arbitrator.

4 15.3. In the event that all such Parties do not consent to arbitration, any one or more  
5 of such Parties shall be free to seek resolution of the controversy, dispute or  
6 claim in such manner as may be provided by law, or in equity.

7 15.4 To the extent a dispute, controversy or claim involves the SRSG Administrator,  
8 this Agreement, and the rights and obligations hereunder shall be construed in  
9 accordance with the applicable federal laws and laws of the state in which the  
10 SRSG Administrator's principal headquarters is located.

11 16. UNCONTROLLABLE FORCES:

12 No Party shall be considered to be in default in performance of any of its obligations  
13 under this Agreement, except to pay amounts due under this Agreement, when a  
14 failure of performance is due to an uncontrollable force. The term "uncontrollable  
15 force" means any cause beyond the control of the Party affected, including but not  
16 restricted to flood, drought, earthquake, storm, fire, lightning, epidemic, war, riot, civil  
17 disturbance or disobedience, labor dispute, sabotage, changes in law or regulation,  
18 restraint by court order or public authority and action or non-action by or failure to  
19 obtain the necessary authorizations or approvals from any governmental agency or  
20 authority which by exercise of due diligence such Party could not reasonably have  
21 been expected to avoid and which by exercise of due diligence it has been unable to  
22 overcome. No Party shall, however, be relieved of liability for failure of performance if  
23 such failure is due to causes arising out of its own gross negligence or willful  
24 misconduct or due to removable or remediable causes which it fails to remove or  
25 remedy within a reasonable time period. Nothing contained herein shall be construed  
26 to require a Party to settle any strike or labor dispute in which it may be involved. A

1 Party rendered unable to fulfill its obligations under this Agreement by reason of an  
2 uncontrollable force shall give prompt written notice of such fact to the other Parties  
3 and shall exercise due diligence to remove such inability within a reasonable time  
4 period.- Nothing contained herein shall excuse a Party from all or any portion of its  
5 obligations to maintain Contingency Reserve hereunder, so long as such Party is  
6 serving Load.

7 17. WAIVERS:

8 A Party's waiver of its rights with respect to a default hereunder, or any other matter  
9 hereunder, shall not be deemed a waiver with respect to any subsequent default of the  
10 same or any other matter.

11 18. NOTICES:

12 18.1 A formal notice, demand or request provided for in this Agreement, shall be in  
13 writing and shall be properly served, given or made if delivered in person, or  
14 sent by either registered or certified mail, postage prepaid, or prepaid telegram  
15 or facsimile or E-mail followed by a written original, to the persons specified in  
16 Exhibit A attached hereto and hereby made a part of this Agreement.

17 18.2 The designation of any person specified in either Exhibit A or Exhibit B, or the  
18 address of any such person, may be changed at any time with ten (10) days  
19 prior written notice to the other Parties and to the SRSG Administrator given in  
20 the same manner as provided in Section 18.1 herein, for other notices.

21 18.3 Notices and requests of a routine nature in connection with delivery or receipt  
22 of power or Energy or in connection with operation of facilities shall be given in  
23 such manner as the committees from time to time shall prescribe.

24 19. APPROVALS:

25 19.1 This Agreement is subject to valid laws, orders, rules and regulations of duly  
26 constituted authorities having jurisdiction. Nothing contained in this Agreement

1 shall be construed as a grant of jurisdiction over any Party by a state, federal,  
2 or regulatory agency not otherwise having jurisdiction by law.

3 19.2 This Agreement requires execution by the Parties, acceptance for filing by the  
4 Federal Energy Regulatory Commission (FERC), or other regulatory bodies  
5 having jurisdiction thereof, and with respect to any Party subject to the  
6 jurisdiction of the Rural Utility Services (RUS), is subject to the approval of the  
7 RUS. If a regulatory body having jurisdiction, grants or orders a hearing or  
8 orders changes or modifications to this Agreement, then the Parties shall  
9 negotiate in good faith to change or modify the Agreement, so as to be  
10 acceptable to the Parties, the FERC, the RUS, or other regulatory bodies  
11 having jurisdiction.

12 19.3 An amendment or change in rates established pursuant to this Agreement and  
13 which is subject to the FERC, the RUS, or other regulatory bodies having  
14 jurisdiction with regard to any Party, shall become effective hereunder upon  
15 execution by the Parties. If a regulatory body having jurisdiction, grants or  
16 orders a hearing or orders changes or modifications to such amendment or  
17 change in rates, then the Parties shall negotiate in good faith to change or  
18 modify such amendment, so as to be acceptable to the Parties, the FERC, the  
19 RUS, or other regulatory bodies having jurisdiction.

20 19.4 Nothing contained herein shall be construed as affecting in any way the right of  
21 the Parties furnishing service under this Agreement, to unilaterally make  
22 application to the FERC for a change in rates, charges, classifications, or  
23 service, or in any rule, regulation, contract, or provision of any appendix  
24 relating thereto under Section 205 of the Federal Power Act and pursuant to  
25 the FERC's rules and regulations promulgated thereunder. Provided, however,  
26 that the Party making application to the FERC shall give the other Parties to

1 the Agreement at least sixty (60) days advance written notice of its intent to  
2 initiate such filing so that the Parties can, if possible, reach a mutually  
3 acceptable change to the Agreement through the negotiation of the Parties.

4 20. TRANSFER OF INTEREST IN AGREEMENT:

5 No voluntary transfer of interest, rights, or obligations of any Party under this  
6 Agreement, shall be made without the written consent and approval of all other Parties  
7 except to a successor in operation of the System, or any component thereof. Written  
8 approval when required shall not be unreasonably withheld. Any successor or  
9 assignee of the rights of any Party, whether by voluntary transfer, judicial or  
10 foreclosure sale or otherwise, shall be subject to all the provisions and conditions of  
11 this Agreement, to the same extent as though such successor or assignee were the  
12 original Party hereunder, and no assignment or transfer of any rights hereunder shall  
13 be effective unless and until the assignee or transferee agrees in writing to assume all  
14 of the obligations of the assignor or transferor and to be bound by all of the provisions  
15 and conditions of this Agreement; provided, that the execution of a mortgage or trust  
16 deed or a judicial or foreclosure sale made thereunder, or if through the disposition by  
17 the Administrator of the RUS, shall not be deemed a voluntary transfer within the  
18 meaning of this Section 20. If, due to reorganization, sale/purchase, or other means, a  
19 Party changes its relationship to the SRSG, its membership(s) will be evaluated by the  
20 Executive Committee and any appropriate change in representation will be subject to  
21 approval of the Executive Committee.

22 21. SEVERABILITY:

23 In the event that any of the terms, covenants or conditions of this Agreement, or the  
24 application of any such term, covenant, or condition, shall be held invalid as to any  
25 person or circumstance by any court having jurisdiction, all other terms, covenants, or  
26 conditions of this Agreement, and their application shall not be affected thereby, but

1 shall remain in force and effect unless a court holds that the provisions are not  
2 separable from all other provisions of this Agreement.

3 22. RELATIONSHIP OF PARTIES:

4 22.1 Nothing contained herein shall be construed to create an association, joint  
5 venture, trust, or partnership, or impose a trust, partnership, covenant,  
6 obligation, or liability on or with regard to any one or more of the Parties. Each  
7 Party shall be individually responsible for its own covenants, obligations, and  
8 liabilities under this Agreement.

9 22.2 All rights of the Parties are several, not joint. No Party shall be under the  
10 control of or shall be deemed to control another Party. Except as expressly  
11 provided in this Agreement, no Party shall have a right or power to bind another  
12 Party without its express written consent.

13 23. NO DEDICATION OF FACILITIES:

14 Any undertaking by one Party to another Party under any provision of this Agreement,  
15 shall not constitute the dedication of the System or any portion thereof of the  
16 undertaking Party to the public or to the other Party, and it is understood and agreed  
17 that any such undertaking, by a Party shall cease upon the termination of such Party's  
18 obligations under this Agreement.

19 24. THIRD PARTY BENEFICIARIES:

20 This Agreement shall not be construed to create rights in, or to grant remedies to, any  
21 third party as a beneficiary of this Agreement, or of any duty, obligation or undertaking  
22 established herein.

23 25. LIABILITY:

24 25.1 Subject to any applicable state and federal law which specifically prevents a  
25 Party from complying with the provisions hereof, and except for the obligation  
26 to pay amounts due in accordance with Section 13 herein, no Party, its

1 directors, members of its governing bodies, officers or employees, shall be  
2 liable to any other Party or Parties for loss or damage to property, loss of  
3 earnings or revenues, personal injury, or any other direct, indirect, or  
4 consequential damages or injury which may occur or result from the  
5 performance or non-performance of this Agreement, including any negligence  
6 arising hereunder, unless actions or claims and resulting liability, judgments  
7 and costs were caused by or resulted from action taken or not taken by a Party  
8 or Parties at the direction of its or their directors, members of its governing  
9 bodies, officers or employees with management or administrative responsibility  
10 affecting its or their performance under this Agreement, which is knowingly or  
11 intentionally taken or not taken with conscious indifference to the  
12 consequences thereof or with the intent that injury or damage would result or  
13 would probably result therefrom. For the purposes of this Section 25 herein, a  
14 "Party" shall include the SRSG Administrator, if the SRSG Administrator is a  
15 Party to this Agreement.

16 25.2 The benefits of Section 25.1 herein, shall not extend to a Party prevented by  
17 state or federal law from complying with the provisions thereof.

18 26. DEFAULTS:

19 26.1 A Party shall be in default in payment when payment is not received within ten  
20 (10) days after its final due date. A default by any Party in its payment  
21 obligations under this Agreement, shall be cured by payment of all overdue  
22 amounts together with interest accrued at the rate set forth in Section 13.5  
23 herein, prorated daily from the due date to the date the payment curing the  
24 default is made.

25 26.2 Notwithstanding Section 25 herein, a defaulting Party shall be liable to the non-  
26 defaulting Parties for all costs, including costs of collection and reasonable

1 attorney fees incurred by such non-defaulting Parties, plus interest as provided  
2 in Section 26.1 hereof. The proceeds paid by a defaulting Party to remedy any  
3 such default shall be distributed to the non-defaulting Parties in proportion to  
4 the additional costs and expenses actually paid by the non-defaulting Parties  
5 as a result of the default.

6 26.3 The rights of a Party who is in default of any of its payment or other material  
7 obligations herein, may be suspended by a vote of the non-defaulting Parties'  
8 representatives on the Operating Committee or terminated by a vote of the  
9 non-defaulting Parties' representatives on the Executive Committee. This  
10 provision allowing the non-defaulting Parties to suspend or terminate such  
11 rights is in addition to any other remedies provided in this Agreement, at law, or  
12 in equity, and shall in no way limit the non-defaulting Parties' ability to seek  
13 judicial enforcement of the defaulting Party's obligations under this Agreement.  
14 Upon the effective date of such suspension or termination of rights, all rights of  
15 the defaulting Party and all obligations of non-defaulting Parties to the  
16 defaulting Party imposed by this Agreement, except payment obligations, shall  
17 immediately be suspended or terminated.

18 26.4 Upon suspension or termination of the rights of a defaulting Party under this  
19 Agreement, the Operating Committee shall review reserve responsibility and  
20 cost allocations of the non-defaulting Parties and make adjustments thereto as  
21 it deems necessary.

22 27. OTHER AGREEMENTS:

23 No provision of this Agreement, shall preclude a Party from entering into other  
24 agreements or conducting transactions under existing agreements with other Parties  
25 or third parties. This Agreement, shall not be deemed to modify or change any rights  
26 or obligations under any prior contracts or agreements between or among any of the

1 Parties.

2 28. PROPRIETARY INFORMATION:

3 All material of any nature originated or developed hereunder by the committees,  
4 SRSG Administrator, or any Party including, but not limited to, reports and computer  
5 printouts, shall remain the sole property of the Parties despite distribution, if any, to  
6 participating Parties or third parties. It is hereby agreed that such material shall be  
7 deemed to contain confidential or proprietary information and shall not be released by  
8 any Party to any other Party or third party without the originating Party's consent,  
9 unless required by law, or such material has subsequently been made available to the  
10 public by the Party owning such material. Prior to releasing such records, to the extent  
11 applicable law allows, at least ten (10) working days notice shall be given to the Party  
12 whose records are being released.

13 29. PARTICIPATION BY THE UNITED STATES:

14 The participation by the United States in this Agreement is subject in all respects to  
15 acts of Congress and to lawful and valid regulations established thereunder and rate  
16 schedules promulgated by the delegates of the Secretary of Energy thereunder.  
17 Reference to any Federal statute, regulation or executive order in this Agreement,  
18 shall be for the purpose of identification only and all Parties agree that performance by  
19 the United States will require compliance with all current laws, regulations, or  
20 executive orders. Updates, revisions, reissuances, or a new enactment of law,  
21 regulation, or executive order may also be applicable by the terms of such law,  
22 regulation, or executive order to performance by the United States hereunder.

23 30. CONTINGENT UPON APPROPRIATIONS:

24 The United States shall make every effort to obtain appropriations as necessary for  
25 continued participation in this Agreement; however, it is understood that the  
26 participation of the United States is contingent upon obtaining the necessary

1 appropriations and, if such necessary appropriations are not obtained from Congress,  
2 then the other Parties hereby agree to release and discharge the United States from  
3 any financial liability or responsibility in connection with the continued participation and  
4 associated rights in this Agreement; provided, that if the United States is unable to  
5 continue participation as a result of non-appropriation of funds, the United States will,  
6 at the time sufficient funds are appropriated, make payment to the appropriate Party or  
7 Parties equal to the amount plus interest calculated pursuant to Section 13.5 herein,  
8 which become due under this Agreement, if funds had been timely appropriated.  
9 Payment by the United States shall constitute performance by the United States as if  
10 funds had been appropriated and payment made as scheduled. Full reinstatement of  
11 the United States under the terms of this Agreement shall be granted only if funds are  
12 appropriated in amounts to cover any obligations which might arise by virtue of the  
13 application of Section 26 herein.

14 31. OFFICIALS NOT TO BENEFIT:

15 No Member of or Delegate to Congress or Resident Commissioner shall be admitted  
16 to any share or part of this Agreement, or to any benefit that may arise herefrom, but  
17 this restriction shall not be construed to extend to this Agreement if made with a  
18 corporation or company for its general benefit.

19 32. EXECUTION BY COUNTERPART:

20 This Agreement may be executed in any number of counterparts, and upon execution  
21 of this Agreement by all Parties, each executed counterpart shall be binding, and all  
22 executed counterparts shall together have the same force and effect as an original  
23 instrument as if all Parties had signed the same instrument. Any signature page of  
24 this Agreement may be detached from any counterpart of this Agreement without  
25 impairing the legal effect of any signature thereon, and may be attached to another  
26 counterpart of this Agreement identical in form hereto but having attached to it one or

1 more signature pages.

2 33. SIGNATURE CLAUSE:

3 Each Party hereto represents and warrants that the person executing this Agreement  
4 has been duly authorized to act on its behalf.

5

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ARIZONA ELECTRIC POWER COOPERATIVE, INC.

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BY: \_\_\_\_\_  
TITLE: \_\_\_\_\_  
DATE: \_\_\_\_\_

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ARIZONA PUBLIC SERVICE COMPANY

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BY: \_\_\_\_\_  
TITLE: \_\_\_\_\_  
DATE: \_\_\_\_\_

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CITY OF FARMINGTON

ATTEST:

BY: \_\_\_\_\_  
TITLE: \_\_\_\_\_  
DATE: \_\_\_\_\_

EL PASO ELECTRIC COMPANY

BY: \_\_\_\_\_  
TITLE: \_\_\_\_\_  
DATE: \_\_\_\_\_

INCORPORATED COUNTY OF LOS ALAMOS

ATTEST:

BY: \_\_\_\_\_  
TITLE: \_\_\_\_\_  
DATE: \_\_\_\_\_

NEVADA POWER COMPANY

BY: \_\_\_\_\_  
TITLE: \_\_\_\_\_  
DATE: \_\_\_\_\_

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PLAINS ELECTRIC GENERATION AND  
TRANSMISSION COOPERATIVE, INC.

ATTEST:

\_\_\_\_\_

BY: \_\_\_\_\_  
TITLE: \_\_\_\_\_  
DATE: \_\_\_\_\_

PUBLIC SERVICE COMPANY OF NEW MEXICO

BY: \_\_\_\_\_  
TITLE: \_\_\_\_\_  
DATE: \_\_\_\_\_

SALT RIVER PROJECT AGRICULTURAL  
IMPROVEMENT AND POWER DISTRICT

BY: \_\_\_\_\_  
TITLE: \_\_\_\_\_  
DATE: \_\_\_\_\_

TUCSON ELECTRIC POWER COMPANY

BY: \_\_\_\_\_  
TITLE: \_\_\_\_\_  
DATE: \_\_\_\_\_

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WESTERN AREA POWER ADMINISTRATION  
DESERT SOUTHWEST REGION

BY: \_\_\_\_\_  
TITLE: \_\_\_\_\_  
DATE: \_\_\_\_\_

IMPERIAL IRRIGATION DISTRICT

BY: \_\_\_\_\_  
TITLE: \_\_\_\_\_  
DATE: \_\_\_\_\_

PPL ENERGYPLUS, LLC

BY: \_\_\_\_\_  
TITLE: \_\_\_\_\_  
DATE: \_\_\_\_\_

DUKE ENERGY CONTROL AREA

BY: \_\_\_\_\_  
TITLE: \_\_\_\_\_  
DATE: \_\_\_\_\_

SOUTHWEST RESERVE SHARING GROUP

PARTICIPATION AGREEMENT

EXHIBIT A

Official Mailing Titles and Addresses  
of the Parties

Arizona Public Service Company  
c/o Secretary of the Company  
Arizona Public Service Company  
P. O. Box 53999  
Phoenix, AZ 85072-3999

City of Farmington  
c/o Electric Utility Director  
800 Municipal Drive  
Farmington, NM 87401

Duke Energy Control Area  
c/o Denise Ayers  
5400 Westheimer Court  
Suite 7-1-18  
Houston, TX 77056

El Paso Electric Company  
c/o Secretary  
P. O. Box 982  
El Paso, TX 79960

Imperial Irrigation District  
c/o Javier Esparza  
333 East Barioni Boulevard  
Imperial, CA 92251

Incorporated County of Los Alamos  
c/o Manager, Department of Public Utilities  
P. O. Drawer 1030  
Los Alamos, NM 87544

Nevada Power Company  
c/o Division Director, System Planning and Operations  
6226 West Sahara Avenue (89102)  
P.O. Box 230  
Las Vegas, NV 89151

PPL Energy Plus, LLC  
c/o Manager, Trading & Operations  
45 Basin Creek Road  
Butte, Montana 59701

1 Public Service Company of New Mexico  
2 c/o Secretary  
3 Alvarado Square  
4 Albuquerque, NM 87158

5 Salt River Project Agricultural Improvement and Power District  
6 c/o Secretary  
7 P. O. Box 52025  
8 Phoenix, AZ 85072-2025

9 SRSG Administrator  
10 c/o SRSG Administrator - MS: POB013  
11 P.O. Box 52025  
12 Phoenix, AZ 85072-2025

13 Southwest Transmission Cooperative  
14 c/o Executive Vice President and General Manager  
15 P.O. Box 2195  
16 Benson, AZ 85602

17 Tucson Electric Power Company  
18 c/o Secretary  
19 P. O. Box 711  
20 Tucson, AZ 85702

21 Western Area Power Administration - Desert Southwest Region  
22 c/o Regional Manager  
23 Western Area Power Administration  
24 P. O. Box 6457 (615 S. 43<sup>rd</sup> Avenue)  
25 Phoenix, AZ 85005-6457  
26

SOUTHWEST RESERVE SHARING GROUPPARTICIPATION AGREEMENTEXHIBIT BOfficial Billing AddressesArizona Public Service Company

Attn: Mark Hackney  
P.O. Box 53999, ms 2260  
Phoenix, AZ 85072-3999  
Phone: (602) 250-1128  
FAX: (602) 250-1155

City of Farmington

Attn: Dean Chirigos  
501 McCormick School Road  
Farmington, NM 87401  
Phone: (505) 324-3401  
FAX: (505) 326-2315

Duke Energy Control Area

c/o Denise Ayers  
5400 Westheimer Court  
Suite 7- I -18  
Houston, TX 77056  
Phone: 713.989.0892  
Fax: 713.989.0449

El Paso Electric Company

Attn: AVP - System Operations, m/s 751  
P.O. Box 982  
El Paso, TX 79960  
Phone: (915) 543-5888  
FAX: (915) 521-4763

Imperial Irrigation District

Attn: Javier Esparza  
P.O. Box 937  
Imperial, CA 92251

Incorporated County of Los Alamos

Department of Public Utilities  
Attn: Holly Brown  
P.O. Drawer 1030  
Los Alamos, NM 87544  
Phone: (505) 662-8004  
FAX: (505) 662-8005

Nevada Power Company

Attn: Barbara Sztabnik, M/S 20  
6226 West Sahara Avenue (89102)

P.O. Box 230

Las Vegas, NV 89151

Phone: (702) 227-2476

FAX: (702) 367-5096

PPL EnergyPlus, LLC

Attn: Manager, Accounting

45 Basin Creek Road

Butte, MT 59701

Phone: (406) 533-3504

FAX: (406) 533-0208

Public Service Company of New Mexico

Alvarado Square

Albuquerque, NM, 87158

ATTN: Supervisor, Energy Analysis, MS-EP11

Phone: (505) 241-2400

FAX: (505) 241-6891

Salt River Project Agricultural Improvement and Power District

Attn: Manager of Power Generation - Mail Sta. POB004

P.O. Box 52025

Phoenix, AZ 85072-2025

Phone: (602) 236-3965

FAX: (602) 236-3961

Southwest Transmission Cooperative

Attn: Randall Welker

P.O. Box 2195

Benson, AZ 85602

Phone: (520) 586-5241

FAX: (520) 586-5279

Tucson Electric Power Company

Energy Accounting - SC209

P.O. Box 711

Tucson, AZ 85702

Phone: (520) 745-7173

FAX: (520) 745-3348

Western Area Power Administration - Desert Southwest Region

Manager, Billing and Scheduling

615 S. 43<sup>rd</sup> Ave.

P.O. Box 6457

Phoenix, AZ 85009-6457

Phone: (602) 352-2555

FAX: (602) 352-2569

SOUTHWEST RESERVE SHARING GROUP

PARTICIPATION AGREEMENT

EXHIBIT C

Agreement Developmental Fee

The Agreement Developmental Fee allocated to new members shall be determined as follows:

$$\frac{(\text{Agreement Development Costs})}{(\text{Number of Parties})} = \text{Agreement Developmental Fee}$$

Where:

$$\text{Agreement Development Cost} = [\text{Labor Cost} + \text{Travel Cost}] \times [(\text{Number of Meetings}) \times (\text{Number of attendees}) \times (8\text{-hours/day})]$$

Number of Meetings = Total number of meetings held in regards to the initial formation and development of the SRSG.

Labor Cost = Average labor cost per man-hour (\$50/man-hour), this average includes labor and overheads

Travel Cost = Average cost per man-hour (\$25/man-hour), this is based on an average of \$200 per person per day for travel, room, and meals.

From July, 1996 through October 23, 1997, the Agreement Developmental Fee is:

$$\frac{(\$405,600)}{(11)} = \$36,873$$

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SERVICE SCHEDULE A  
RESERVE OBLIGATIONS

1 SERVICE SCHEDULE A

2 RESERVE OBLIGATIONS

3 A-1. PARTIES:

4 This Service Schedule A is agreed upon as part of the Agreement.

5 A-2. GENERAL:

6 A-2.1 The purpose of this Service Schedule A is to define the aggregate reserve  
7 requirements of the SRSG and to specify the apportionment thereof among the  
8 Parties. Specific reserve requirements of the individual Parties are described  
9 and settlement provisions for reserve deficiencies are also established herein.

10 A-2.2 All reserve requirement calculations derived herein shall be rounded up to the  
11 nearest whole Megawatt.

12 A-2.3 It is the intent of the Parties to meet or exceed the WSCC Minimum Operating  
13 Reliability Criteria, and the NERC control performance and disturbance control  
14 standards, as they may be adopted, modified, or revised.

15 A-2.4 The SRSG has been formed for the purpose of sharing Contingency Reserves  
16 only. Any reserve obligation necessary to meet NERC and WSCC criteria for  
17 regulation, interruptible imports, and on-demand contracts will continue to be  
18 the responsibility of each Party.

19 A.3. TERM:

20 This Service Schedule A shall continue in effect concurrently with the Agreement  
21 unless and until terminated by the Parties in accordance with the provisions of Section  
22 5 of the Agreement.

23 A-4. SRSG CONTINGENCY RESERVE REQUIREMENT:

24 A-4.1 Consistent with this Agreement, the Parties shall ensure the proper level and  
25 location of the Contingency Reserves. The scheduling of these Contingency  
26 Reserves shall be in accordance with Operating Procedures established by the

1 Operating Committee.

2 A-4.2 The amount of Contingency Reserve to be maintained jointly for the SRSG  
3 shall be the greater of either:

- 4 - A-4.2.1 The loss of generating Capacity due to forced outage of generation or  
5 transmission equipment that would result from the Most Severe  
6 Single Contingency of the SRSG (at least half of which must be  
7 Spinning Reserve); or

8 A-4.2.2 The sum of five percent (5%) of the aggregate Firm Commitment  
9 responsibility served by the Parties with hydro generation, plus seven  
10 percent (7%) of the aggregate Firm Commitment responsibility served  
11 by the Parties with thermal generation (at least half of which must be  
12 Spinning Reserve).

13 *A graphic representation of the SRSG Contingency Reserve calculation is depicted in*  
14 *Attachment 1 to this Service Schedule A.*

15 A-5. SRSG SPINNING RESERVE REQUIREMENT:

16 The amount of Spinning Reserve to be maintained jointly for the SRSG shall be equal  
17 to fifty percent (50%) of the SRSG Contingency Reserve requirement determined in  
18 accordance with Section A-4.2 herein. All SRSG Spinning Reserve shall be  
19 responsive to WSCC frequency deviations.

20 A-6. RESERVE RESPONSIBILITY VALUE/RESERVE RESPONSIBILITY RATIO:

21 A-6.1 Reserve Responsibility Value (RRV)

22 A Party's RRV is equal to twenty-five percent (25%) of its Firm Commitment,  
23 plus one-hundred percent (100%) of the number of megawatts associated with  
24 its Most Severe Single Contingency.

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26 A-6.2 Reserve Responsibility Ratio (RRR)

1 A Party's RRR is equal to its RRV divided by the sum of the RRV's for each  
2 Party.

3 *Graphic representations of the Reserve Responsibility Value and Reserve Responsibility Ratio*  
4 *calculations are depicted in Attachment 2 to this Service Schedule A.*

5 A-7. PARTY RESERVE QUOTAS:

6 Each Party is responsible for supplying its quota for Contingency Reserve, which is  
7 made up of Spinning Reserve and Non-Spinning Reserve, for all hours based on the  
8 following reserve quotas. Contingency Reserves activated due to the occurrence of  
9 any event shall be restored by the affected Party or Parties in as short a period of time  
10 as possible, but not longer than sixty (60) minutes from the start of the event, unless  
11 and until the Operating Committee shall establish a different time period.

12 A-7.1 Contingency Reserve - The hourly Contingency Reserve quota for a Party shall  
13 be equal to the product of the SRSG Contingency Reserve requirement for that  
14 hour, as determined in accordance with Section A-4.2 herein, multiplied by its  
15 RRR, as determined in accordance with Section A-6.2 herein; provided,  
16 however, each Party shall maintain at least 5 MW of Contingency Reserve at  
17 all times.

18 A-7.2 Spinning Reserve - The hourly Spinning Reserve quota for a Party shall be  
19 equal to fifty percent (50%) of its hourly Contingency Reserve quota, as  
20 determined in accordance with Section A-7.1 herein; provided, however, each  
21 Party shall maintain at least 3 MW of Spinning Reserve at all times.

22 *Graphic representations of the Party's Contingency Reserve and Spinning Reserve*  
23 *calculations are depicted in Attachment 3 to this Service Schedule A.*

24 A-8. PENALTIES:

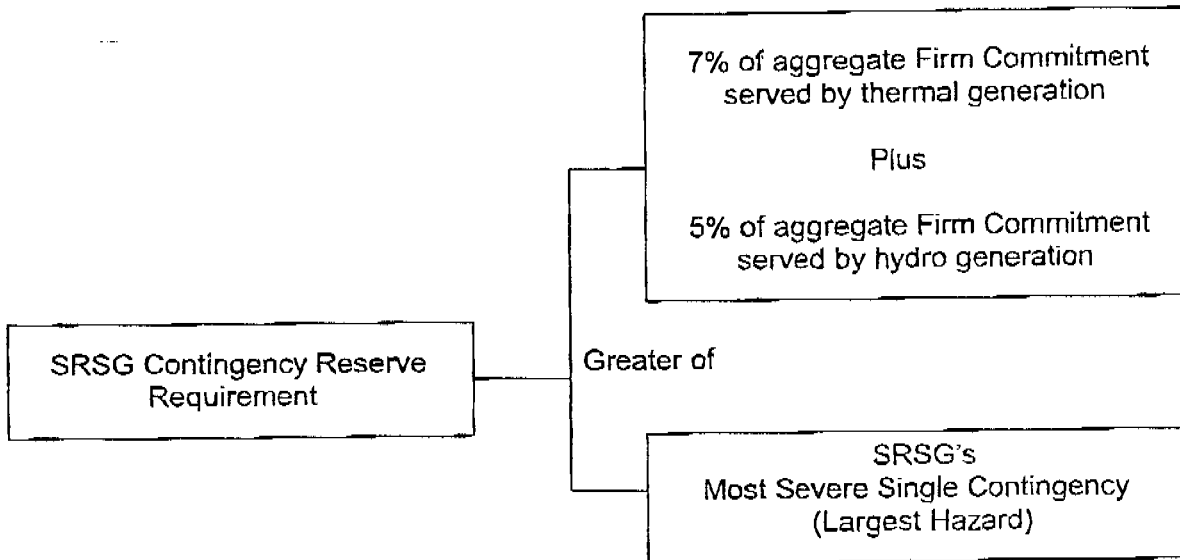
25 A-8.1 At the end of each hour, the SRSG Administrator shall compare the actual  
26 amount of Contingency Reserve and Spinning Reserve carried by each Party

1 to that Party's respective reserve quotas. A Party shall be deficient in  
2 Contingency Reserve if the actual amount of reserve carried by the Party is  
3 less than that Party's respective reserve quotas. If a Party is deficient in the  
4 amount of Contingency Reserve, the deficient Party shall be assessed a  
5 penalty as set forth in the applicable Operating Procedure(s).

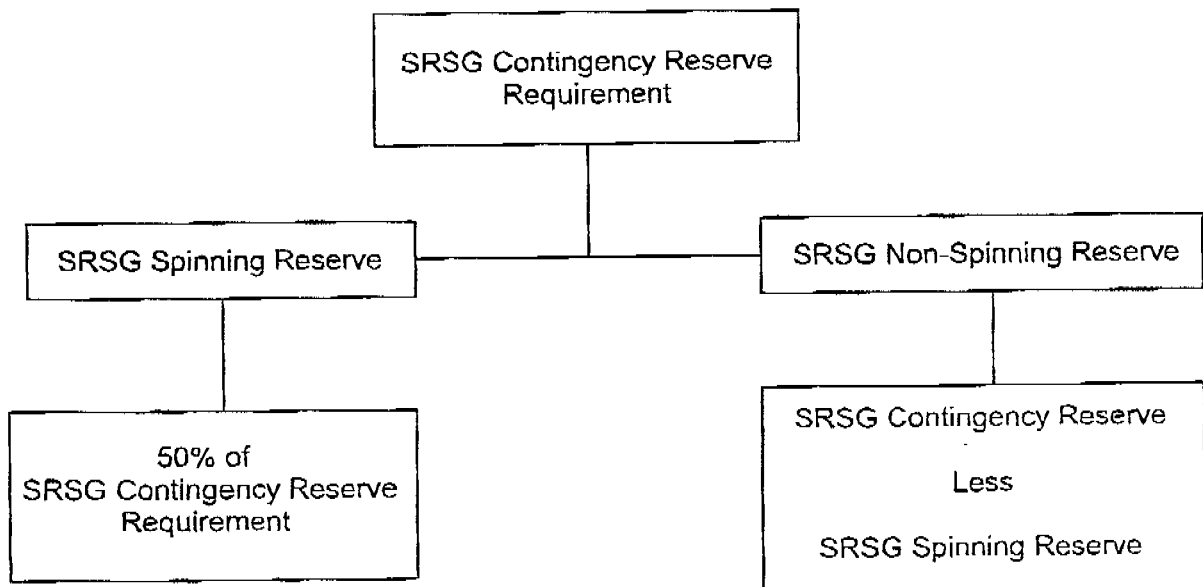
6 A-8.2 Penalties imposed by NERC or WSCC on the SRSG for failure to carry  
7 required Contingency Reserves shall be applied only to the Party(ies) that  
8 caused the Contingency Reserve deficiency in proportion to which such  
9 Party(ies) contributed to the Contingency Reserve deficiency.

10 A-9. BILLING AND PAYMENT

11 All billings and payments associated with this Service Schedule A shall be made in  
12 accordance with Section 13 of the Agreement.  
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Attachment 1 to Service Schedule ACalculation of  
SRSG Contingency Reserve Requirements

Where:

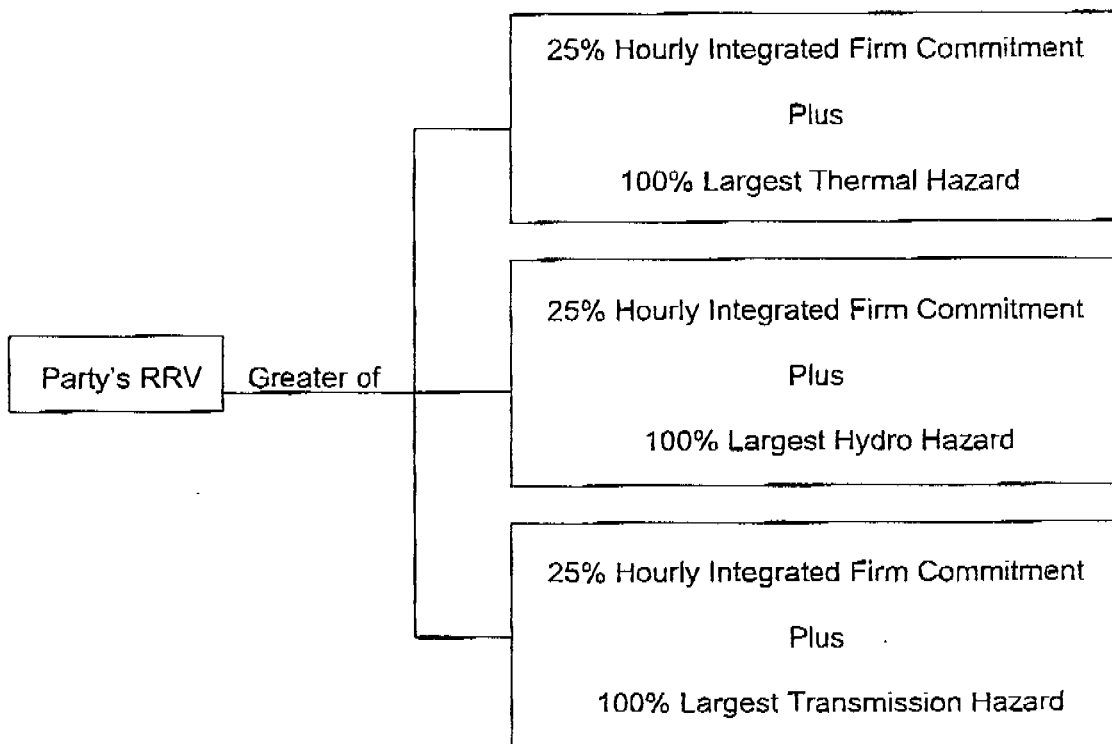


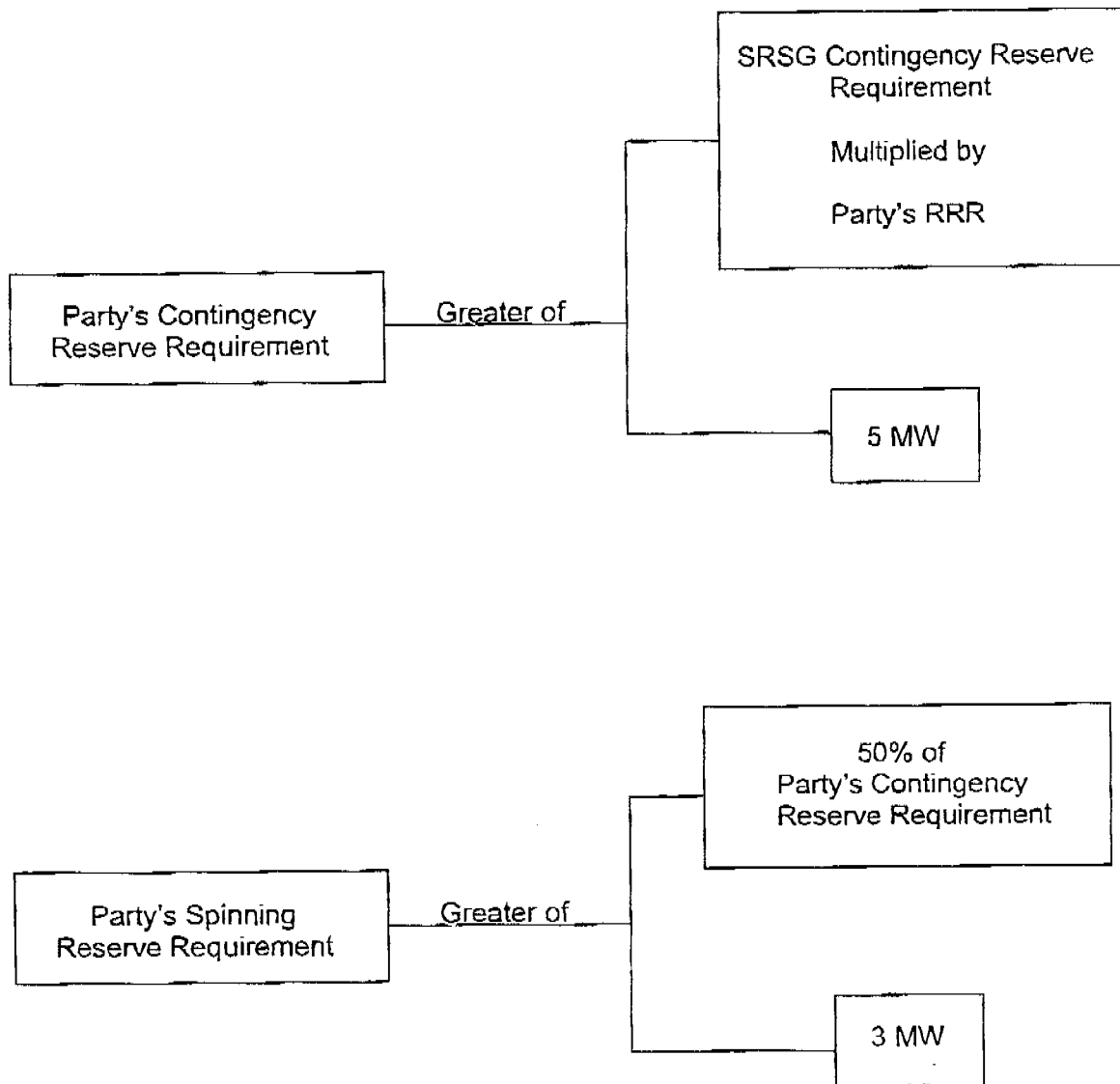
Attachment 2 to Service Schedule A

Calculation of  
Reserve Responsibility Ratio (RRR)  
and  
Reserve Responsibility Value (RRV)



Where:



Attachment 3 to Service Schedule ACalculation of  
Party's Contingency and Spinning Reserve Requirements

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SERVICE SCHEDULE B

ACTIVATION OF RESERVES  
FOR  
EMERGENCY ASSISTANCE

1 SERVICE SCHEDULE B

2 ACTIVATION OF RESERVES FOR EMERGENCY ASSISTANCE

3 B-1. PARTIES:

4 This Service Schedule B is agreed upon as part of the Agreement.

5 B-2. GENERAL:

6 The purpose of this Service Schedule B is to define the terms and conditions under  
7 which a Party is obligated to activate its reserves for another Party requesting  
8 Emergency Assistance.

9 B-3. TERM:

10 This Service Schedule B shall continue in effect concurrently with the Agreement  
11 unless and until terminated by the Parties in accordance with provisions of Section 5 of  
12 the Agreement.

13 B-4. PARTY OBLIGATIONS:

14 Each Party is responsible for the activation of reserves as follows:

15 B-4.1 Party Experiencing a Disturbance

16 The Party experiencing a Disturbance shall immediately activate its own  
17 Contingency Reserves and initiate a system disturbance message (which shall  
18 include a request for Emergency Assistance if required), in accordance with  
19 Operating Procedures established by the Operating Committee.

20 B-4.2 Party Supplying Emergency Assistance

21 A Party supplying Emergency Assistance shall activate its reserves in  
22 accordance with Operating Procedures established by the Operating  
23 Committee.

24 B-4.3 All Parties

25 B-4.3.1 Each Party shall be required to complete the activation of its reserves  
26 within ten (10) minutes from the time of the Disturbance.

1 B-4.3.2 When supplying Emergency Assistance a Party has no obligation to  
2 supply more than its Contingency Reserve quota.

3 B-4.3.3 A Party has no obligation to supply Emergency Assistance to another  
4 Party beyond a period of sixty (60) minutes from the time of the  
5 Disturbance.

6 B-4.4 Pursuant to WSCC and NERC criteria, each Party shall maintain sufficient  
7 transmission to support the activation of its own Contingency Reserves and its  
8 Emergency Assistance obligations in accordance with the Agreement.

9 B-4.4.1 The amount of non-recallable transmission required to predetermined  
10 points of delivery shall be determined using matrices for all major  
11 contingencies specifying the transmission paths necessary to deliver  
12 SRSG reserves in accordance with the applicable Operating  
13 Procedures as established by the Operating Committee.

14 B-5. SETTLEMENT FOR EMERGENCY ASSISTANCE:

15 B-5.1 Transmission - Charges associated with the transmission utilized in  
16 accordance with Section B-4.4 herein, shall be the responsibility of the Party  
17 reserving such transmission.

18 B-5.2 Capacity - There shall be no Capacity (demand) charge associated with the  
19 supply or receipt of Emergency Assistance.

20 B-5.3 Energy - The Party receiving Emergency Assistance shall pay the supplying  
21 Party or Parties for the Energy received at a rate of one-hundred percent  
22 (100%) of the supplying Party's cost incurred. For the purpose of this  
23 Agreement, the term "cost incurred" shall mean the expense incurred by the  
24 supplying Party in supplying Emergency Assistance, as such cost is  
25 determined in accordance with the applicable Operating Procedures as  
26 established by the Operating Committee. Such costs shall include, but not be

1 limited to, the following:

2 B-5.3.1 The cost of fuel which was consumed in generating Energy for  
3 Emergency Assistance; plus

4 B-5.3.2 Startup and incremental cost of unit operation and maintenance.

5 B-6. PENALTIES:

6 Penalties imposed by NERC or WSCC on the SRSG for failure to recover from a  
7 Disturbance shall be applied only to the Party(ies) that caused such failure.

8 B-7. BILLING AND PAYMENT

9 All billings and payments associated with this Service Schedule B shall be made in  
10 accordance with Section 13 of the Agreement.  
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